



**MCI Telecommunications  
Corporation**

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

November 23, 1993

Mr. William F. Caton  
Secretary  
Federal Communications Commission  
Room 222  
1919 M Street, NW  
Washington, DC 20554

Re: RM 8354: Revision of the Commission's Part 64  
Requirements for the Filing of Cost Allocation Manuals by  
Certain Local Exchange Carriers.

Dear Mr. Caton:

Enclosed herewith for filing are the original and four (4) copies of MCI Telecommunications Corporation's Reply Comments in the above-captioned proceeding.

Please acknowledge receipt by affixing an appropriate notation on the copy of the MCI Reply Comments furnished for such purpose and remit same to the bearer.

Sincerely yours,

*Elizabeth Dickerson*

Elizabeth Dickerson  
Manager, Federal Regulatory

Enclosure  
ED/ms

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20054

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of )  
 )  
Revision of the Commission's Part )  
64 Requirements for the Filing of )  
Cost Allocation Manuals by )  
Certain Local Exchange Carriers )

RM-8354

**REPLY COMMENTS**

MCI Telecommunications Corporation ("MCI") hereby submits its reply to comments filed in response to the Petition for Rulemaking filed by the United States Telephone Association ("USTA") in the above-captioned matter. In its petition, USTA asked that the Commission increase the revenue threshold that determines whether a Tier 1 carrier must file a cost allocation manual ("CAM") from \$100 million annual operating revenues to \$1 billion.

In its comments, MCI asked the Commission to retain the current rules because analysis of contemporary circumstances suggests that if any modification be made to the rule, it should expand the scope of the requirement, rather than relax it. Increasing the threshold as USTA asks potentially could exempt large local exchange carriers ("LECs") from a level of oversight that is necessary in light of the rapid expansion of LECs into non-regulated businesses. Further, MCI noted that since the totality of accounting safeguards the Commission now has in place is less effective than a separate subsidiary requirement would be at protecting captive customers from cross-

subsidization, it does not support the removal of any of the individual elements. MCI rejected the argument that lack of comments on CAM quarterly updates is proof that carriers are not breaking the rules and that the mandatory revisions are not necessary. Finally, MCI argued that since even the smallest LEC is dominant in its own serving area, absolute revenue serves as no measure of the need for oversight, and any modification of the rules should seek a more meaningful measure of potential risk.

In general, the filings of the LECs failed to expound upon USTA's basic arguments. Most of them pointed to the other avenues of oversight available to the Commission.<sup>1/</sup> Some reiterated that the lack of comments against previous CAM filings supports their elimination.<sup>2/</sup> Others focused on the cost/benefit analysis, yet curiously provided no data to support their conclusions that the benefits of eliminating the requirement outweigh the unidentified costs.<sup>3/</sup>

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<sup>1/</sup> Comments ALLTEL, p. 2; Comments of Nevada Bell, p. 3; and Comments of Puerto Rico Telephone Company, p. 6.

<sup>2/</sup> Comments of Nevada Bell, p. 4. Bell Atlantic, however, noted that "[n]either the amount of these LEC's [sic] nonregulated activities nor the presence or absence of comments on their CAM filings has any bearing on whether to require a CAM filing." Comments of Bell Atlantic, p. 2.

<sup>3/</sup> See, e.g., Comments of Lincoln, p. 1 ("The relative costs and burdens of these requirements are proportionately greater for Lincoln than other Tier 1 carriers.") and Comments of ALLTEL, p. ("[T]he cost of these burdensome administrative requirements for mid-size companies such as those captured by the existing threshold exceeds the public benefit to be gained from such reporting.") ALLTEL's conclusion, however, cannot be taken in earnest, however, since in the next paragraph ALLTEL indicates that it "believes that a rulemaking is in order to determine whether the benefits to be gained by requiring such reporting from mid-size carriers are outweighed by the cost of compliance." (Id., p. 2)

Puerto Rico Telephone Company raises the peculiar issue that its costs are so excessive because of its affiliation with the government.<sup>4</sup> Yet, such an affiliation may, in fact, increase the risk of misappropriated costs and revenues. Puerto Rico Telephone Company, however, raises only the cost concern, and does not address the risk side of the equation, leaving unanswered a question that is critical to a comprehensive analysis of Puerto Rico's argument for relief from certain regulatory burdens.

MCI urges the Commission to consider closely the Public Utilities Commission of Ohio's concern about the shift in burden that would result from implementing USTA's proposal. Not only would the public (i.e., interexchange carrier captive ratepayers) lose its opportunity to remark on certain LECs' allocations, but the "independent scrutiny" of outside auditors would be eliminated as well. While the LECs arguably would benefit from reduced costs and administration, the costs and burden of scrutiny would not disappear, but actually would shift to the regulators: "If the USTA petition is adopted, the FCC and state regulators would incur additional costs to validate the affected carriers' compliance with Part 64 rules."<sup>5</sup> When calculating the alleged savings USTA and the LECs claim will flow to the LECs, it is important to add to the equation, the actual increase in costs to the regulators, as well as the potential

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<sup>4</sup> Comments of Puerto Rico Telephone Company, p. 1.

<sup>5</sup> Comments of Public Utilities Commission of Ohio, p. 3.

and significant costs to the ratepayers, should cross-subsidization occur and go undetected.<sup>9/</sup>

Further, these costs are likely to escalate significantly if the flexibility USTA requests is extended to the Bell Operating Companies ("BOCs") as well. The comments of Bell Atlantic and Nevada Bell fully illustrate MCI's concern that modifying the current Part 64 rules "potentially could exempt large local exchange carriers from a degree of oversight that is necessary to promote the just and reasonable rates for interstate services that are the primary intent of the Commission's cost allocation rules."<sup>10/</sup> The annual revenues of Nevada Bell fall under the \$1 billion threshold USTA proposes, thereby conceivably exempting it from the CAM filing requirements. Also, Bell Atlantic, whose proposed mega-merger with TCI has dominated business news since its announcement, endorses removal of the CAM filing requirement for all LECs.<sup>9/</sup> MCI's concern with relaxation of what few safeguards the Commission requires escalates significantly when new leniency may be contemplated for companies with such dominant market power as the BOCs.

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<sup>9/</sup> The dangers from cross-subsidization are even more acute in those situations where the monopoly service provider competes head to head with its ratepayers in the provision of competitive services. Ultimately, the end users are severely damaged because cross-subsidization can send incorrect pricing signals to the market, resulting in diminished consumer choice.

<sup>10/</sup> Comments of MCI, pp. 3, 4.

<sup>9/</sup> Comments of Bell Atlantic, p. 3.

Such regulatory relaxation is inappropriate in light of the likely confluence of the technologies of cable television and telephone operations that, instead, should be elevating issues of cost allocations to new heights. There can be no justification for responding to these sweeping industry changes by relaxing historically weak safeguards even more. Bell Atlantic intends to invest between \$15-20 billion in its network over the next five years.<sup>9/</sup> Pacific Bell has just announced plans for \$16 billion for network upgrades that will allow it to offer a host of non-traditional cable services, leaving one to only anticipate a similar announcement by Pacific Bell's sister company. Additionally, US West, Inc. has invested \$2.5 billion in Time Warner Entertainment; NYNEX Corp. has invested \$1.2 billion in Viacom, Inc.; and BellSouth Corp. is involved in a bid for Paramount Communications.<sup>10/</sup> In light of such widespread plans to add capabilities to the local network that far exceed the fundamental technologies required by the interexchange carriers to originate and terminate basic voice and data transmissions, the question of how these investments and associated expenses will be allocated between regulated and non-regulated services looms larger than ever before. It is inconceivable that the Commission would contemplate less rigorous regulatory oversight at a time when industry developments are begging for increased scrutiny.

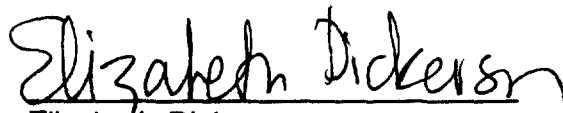
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<sup>9/</sup> Looking for cite to Bell Atlantic order allowing video dial-tone, but requiring an accounting mechanism.

<sup>10/</sup> Pacific Bell Revamping Network, Washington Post, November 12, 1993, p. G1. Attachment A.

For the foregoing reasons, MCI urges the Commission to reject USTA's petition and retain the current Part 64 cost allocation rules.

Respectfully submitted,  
MCI TELECOMMUNICATIONS  
CORPORATION

A handwritten signature in cursive script that reads "Elizabeth Dickerson". The signature is written in dark ink and is positioned above the printed name and address.

Elizabeth Dickerson  
Manager, Federal Regulatory  
1801 Pennsylvania Avenue, NW  
Washington, DC 20006  
(202) 887-3821

November 23, 1993

STATEMENT OF VERIFICATION

I have read the foregoing and, to the best of my knowledge, information, and belief, there is good ground to support it, and it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on November 23, 1993.

Elizabeth Dickerson

Elizabeth Dickerson  
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CERTIFICATE OF SERVICE

I, Susan Travis, do hereby certify that copies of the foregoing MCI Reply Comments were sent via first class mail, postage paid, to the following on this 23rd day of November 1993:

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**Hand Delivered\*\***

  
Susan Travis